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TO RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
RUEHC/SECSTATE WASHDC IMMEDIATE 5389  
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY  
RUCNDT/USMISSION USUN NEW YORK PRIORITY 2187

S E C R E T SECTION 01 OF 03 BEIJING 002149

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E.O. 12958: DECL: 07/27/2029  
TAGS: [EFIN](#) [PGOV](#) [PREL](#) [KTFN](#) [PTER](#) [CH](#) [KN](#)  
SUBJECT: CHINA/UNSCR 1874: U/S LEVEY DISCUSSIONS WITH THE PEOPLE'S BANK OF CHINA AND CHINA CONSTRUCTION BANK

Classified By: Economic Section Deputy Chief Robert Forden;  
Reasons 1.4 (b, d)

**11.** (S) Summary. Treasury U/S for Terrorism and Financial Intelligence Stuart Levey on July 8 queried People's Bank of China (PBoC) Vice Governor Su Ning about Chinese actions to enforce UN Security Council Resolution (UNSCR) 1874 given China's complex financial relationship with North Korea. Governor Su, emphasizing the goal of complying with the resolution without impacting normal trading or humanitarian activities, briefed on PBoC actions to use existing mechanisms to increase transparency and monitor activities. Su clarified that the PBoC has shared information and the resolution's requirements with the commercial banks regarding entities listed by the UN Security Council (UNSC). For entities not yet listed but flagged in information passed by the United States, PBoC had urged banks to "pay close attention." U/S Levey noted the risk North Korea's illicit and deceptive financial conduct posed to Chinese banks, and U.S. financial institutions' close attention to correspondent accounts in light of a recent Treasury advisory regarding North Korean illicit finance risks. Su agreed that it is complicated and difficult for Chinese banks to distinguish between funds for North Korea's nuclear program and funds for humanitarian purposes. He asked that the United States continue to share information on illicit North Korean activities with China. U.S. Secret Service Assistant Director Michael Merritt also provided a briefing on North Korea's counterfeiting of U.S. currency. After originally canceling a meeting with U/S Levey, China Construction Bank's International Affairs Department agreed to meet with him. NOTE: Post believes that the bank had canceled its original meeting with Levey at the direction of the Chinese government. End Summary.

**12.** (C) Treasury U/S for Terrorism and Financial Intelligence Stuart Levey met on July 8 with People's Bank of China (PBoC) Vice Governor Su Ning. Accompanying Su were Anti-Money Laundering Director General (DG) Tang Xu, Legal Department DG Li Bo, International Settlements DG Ouyang Weimin, International Department Deputy DG Jin Zhangxia, and Center for Anti-Money Laundering Analysis Director Wang Yanzhi.

China Using Existing AML Mechanisms, Sanctions Shouldn't Impact "Normal Trade"

**13.** (C) U/S Levey noted that China and the United States agreed on the importance of protecting the global financial system from proliferation and other illicit conduct, and both countries want to work on the issue of North Korea in a way that protects the integrity of the financial system but does not harm the North Korean people. With this in mind, China and the United States worked together with other members of the Security Council to craft UNSCR 1874 which requires all member states to implement designations of North Korean proliferators, and also calls on member states to prevent the provision of financial services that could contribute to North Korea's nuclear-related, missile-related, and other WMD-related programs or activities. During his last trip to Beijing, Levey had shared detailed information about North Korean proliferation- and luxury goods procurement-related activities in China which implicated Chinese financial institutions. Recognizing that it would be difficult for China to implement UNSCR 1874 because of its complex financial relationship with North Korea, U/S Levey said he made a special effort to share especially detailed information.

**14.** (C) Deputy Governor Su stated that the PBoC, as the entity tasked by the State Council for anti-money laundering, would implement the resolution. Specifically, the PBoC had State Council approval to implement the designations of those entities listed by the UN Security Council 1718 Committee. He emphasized that the sanctions should not impact the normal trade activities of the DPRK or humanitarian activities. Su briefed that China has 1) urged Chinese commercial banks, especially those operating near the Korean border, to increase transaction transparency to allow regulators to differentiate and detect problematic transactions; 2) encouraged banks to report suspicious transactions to the PBoC; 3) urged the Center for AML Analysis to use China's large value and suspicious transaction mechanism to study entities identified by the U.S. side; and 4) urged those same Chinese financial institutions to reinforce their AML mechanisms. Su assured U/S Levey that Chinese banks are taking their responsibilities seriously. He said PBoC looks forward to receiving the final UNSC designation list, after which it will notify Chinese banks of the additional obligations.

**15.** (C) Responding to a question from U/S Levey regarding how China will deal with the North Korean pattern of obscuring its illegal activities behind front companies and other deceptive financial and commercial practices, Su agreed that it was difficult to distinguish between legitimate and illicit transactions involving North Korea. Su hoped the U.S. side would agree to increased cooperation and information-sharing to better identify problems. PBoC had in the last few years enhanced transparency, now requiring people to provide a national ID card before opening a bank

account. China's AML law had established a reporting system, allowing the PBoC to verify entities and track counterparties, although this system could not track transactions outside of China. The law requires banks to report personal transactions in excess of RMB 200,000 (USD 30,000), and corporate transactions in excess of RMB 500,000 (USD 75,000).

Briefing on North Korean Counterfeiting Activity

16. (C) Assistant Director of the Secret Service Michael Merritt briefed on North Korea's counterfeiting of U.S. currency. He described the Secret Service investigations of North Korean counterfeiting activities that spanned more than two decades and showed examples of exceptionally high-quality counterfeit U.S. 100 dollar bills. He explained that such bills had been definitively traced to the North Korean government. North Korean diplomats had been caught passing such bills, and the equipment to print them was so large and complex that it was inconceivable that they could be brought into the DPRK without government knowledge. U/S Levey noted that a state that could make such high-quality counterfeit U.S. currency could certainly evade a list of names or other UNSC sanctions and accepted standards of international financial conduct.

Listed Entities Blocked, Non-listed Watched

17. (S) Addressing specific information passed by the U.S. side, Su clarified that China has directed Chinese banks not to transact with Tanchon Commercial Bank (an entity listed by the UNSC 1718 Committee), and to pay close attention to transactions with Korea Kwangson Bank (a North Korean bank with a branch in Dandong, China, that has not been designated, but about which the U.S. has proliferation concerns.) For listed entities, Su said they have shared the information and the resolution's requirements with the commercial banks. For entities not yet listed, banks were told to pay close attention.

18. (S) U/S Levey noted that Chinese banks have been targeted by North Korea as the main access point into the international financial system. The United States had on June 30 designated Namchongang Trading Corporation and Hong Kong Electronics. As examples of the specific information shared with China, Levey noted that the U.S. believes both firms have dealings with Shanghai Pudong Development Bank, and Namchongang made payments through Shenzhen Development Bank. He also noted that the U.S. believes that a representative of UN-designated KOMID transferred money to a Guangdong Development Bank account using the company name Global Trading and Technology.

Reputation at Risk, Info Sharing Requested

19. (C) U/S Levey explained that the U.S. Department of the Treasury wants to see internationalization and foreign expansion by Chinese banks, but North Korea's activities pose a risk to some Chinese banks' reputations. Treasury issued an advisory to U.S. financial institutions on June 18 regarding the risks of North Korean illicit finance and the financial provisions of UNSCR 1874. In particular, the advisory specified the need to apply scrutiny to correspondent accounts, and U.S. financial institutions were treating this as a high priority. Although it should not be overstated, Levey said that he had some reason for concern that North Korean activities were affecting the U.S. financial system.

10. (C) Su stated that he did not think Chinese banks were major counterparties for the North Korean nuclear proliferation activities, but he

Commercial Banks Unwilling to Meet

11. (C) In addition to meeting with the PBoC, the delegation had requested meetings with several Chinese banks both in Beijing and in Shanghai. U/S Levey had previously met with Chinese banks on a number of occasions, but on this occasion the banks were unwilling to meet. (Note: Treasury Secretary Geithner explained to Chinese Vice Premier Wang Qishan by phone the need for U/S Levey to meet with banks, an argument Wang rejected. Wang asked that any information Levey wanted to convey to these banks could be conveyed through the PBoC. End note.) Two Chinese banks -- China Construction Bank and the Agricultural Bank of China -- confirmed previously requested meetings with U/S Levey, but subsequently canceled them. (Note: While in Beijing, U/S Levey was able to meet with an American independent director of China Construction Bank.)

12. (C) Officials of the China Construction Bank agreed to meet with U/S Levey in conjunction with a previously-scheduled meeting with Beijing-based FinAtt, although the Director for International Operations with whom the meeting was originally scheduled did not participate. U/S Levey shared information with CCB officials in the meeting. The CCB officials stated several times that CCB would like to continue its dialogue with the Undersecretary, and also asked him to share information with the PBoC. (Delegation comment: It was unclear whether the PBoC knew about Levey's meeting with CCB in advance, but presumably this message about information-sharing came from the PBoC. End comment.)

13. (U) The delegation has cleared this cable.

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